

**HEARING ON
FEDERAL CONTRACTING
IN DISASTER PREPAREDNESS AND RESPONSE
HOUSE COMMITTEE ON GOVERNMENT REFORM**

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Mr. Chairman, Ranking Member Waxman, and Members of the Committee. It is an honor to testify before you today regarding FedBid's efforts to help the federal government in dealing with procurement issues that have been brought to light during the recent Hurricane Katrina disaster. At the outset, I would like to express our company's gratitude to the Members of this Committee for their efforts in trying to ensure that the federal government can find ways to function more effectively and efficiently for the citizens of this great nation.

1. COMPANY OVERVIEW

FedBid, Inc. ("FedBid"), headquartered in Vienna, Virginia, is a small business that offers commercially available online procurement services, including reverse auctions, single bid competitions, and online payment through its website, www.FedBid.com. FedBid's online services represent, what we believe to be, the best available combination of procurement technology and services, providing a proven, Internet-based marketplace, through which public sector buyers can buy commercial items – primarily price-driven commodities – from commercial sellers in a dynamic competition forum.

FedBid's online marketplace effectively addresses the procurement elements of the acquisition process by providing buyers with a user-friendly, regulatory compliant means of procuring, and paying for, commodities, such as office supplies, IT, and security equipment, and

commoditized services. By automating the communication and competition aspects of the procurement process, FedBid is able to assist the federal government buyer manage an ever-increasing workload.

How the FedBid Marketplace Works

The competition piece of FedBid's online marketplace operates much like a reverse eBay®, using an online method by which many sellers bid on a buyer agency's requirements, and prices drop as sellers seek to underbid each other. FedBid utilizes a fully automated web-based system that can process thousands of competitions simultaneously, each involving multiple sellers submitting one or more bids on multiple items, depending on the competition type selected by the buyer. Users need only to have access to the World Wide Web through an Internet browser in order to access FedBid's services from anywhere in the world. Moreover, FedBid's marketplace is specifically designed for low bandwidth usage, which allows users to access its full functionality even through dial-up and mobile wireless modems in areas where broadband access may not be possible.

To begin the procurement process, buyers publicize, or post, items needed by an agency, and then FedBid automatically notifies potential sellers of the opportunity. Once notified, including, as applicable, through FedBid's FAR-compliant automated electronic feed to FedBizOpps (the government's electronic bulletin board), sellers can submit bids through a "sealed" online bid submittal process, by which FedBid maintains confidentiality of competitor identities and pricing data, ensures fair competition and complies with applicable federal procurement regulations. This approach also effectively encourages significant competition among sellers, particularly in reverse auction competitions, in which sellers are able to submit manual or automated multiple decreasing bids throughout the duration of the competition in

order to obtain the Lead position.

Although FedBid automates much of the procurement process, the government buyer is always in charge of the procurement and maintains complete decision making authority. Buyers are able to access all of their procurements 24 hours a day, without any practical limitation on the number of active or previously documented competitions. The buyer sets the duration of the competition, and provides custom product specifications and seller restrictions, which can be used to meet agency socioeconomic goals or require use of GSA Schedule contracts, agency BPAs, or multiple award ID/IQ contracts (as second level competition). The buyer also establishes award criteria, which can include price, technical capability and other factors. Seller bids include price, offer description, delivery time, and seller data. When bidding ends, the government buyer reviews the bids and decides whether to accept any one of the bids, based on best value, low price or other factors specified in the solicitation. Buyers have multiple opportunities to fully specify and confirm requirements, and they can cancel the procurement at any time during the process. Even after the competition closes, buyers are not required to accept a bid if the buyer determines that the results of the competition do not meet the agency's needs. In each case, FedBid's Client Services support team provides continuous support to buyers and sellers throughout the procurement process at no additional cost, ensuring adequate competition and addressing any technical or other issues that may arise.

FedBid's ePayment capability complements its other procurement services by allowing agency buyers to manage payment electronically through their government issued purchase cards or other authorized credit cards. FedBid effectively facilitates transactional data exchange, enabling agencies to receive detailed (Level 3) transaction information for invoice reconciliation, payment processing, auditing, and overall financial management. FedBid ePayment also permits

Sellers to qualify for lower credit card processing fees, which reduces the costs for sellers supporting the government. Enhanced data is accumulated and available, so reporting is easy and detailed. Moreover, FedBid ePayment works with existing government systems, such as SmartPay charge cards, procurement systems, financial systems, Federal Procurement Data System (FPDS), and others.

2. COMPANY'S ROLES AND RESPONSIBILITIES AS A FEDERAL CONTRACTOR

For the past five years, FedBid has made significant investments of time and resources in developing and bringing to market a viable, effective online procurement service. As a result of these efforts, FedBid has successfully demonstrated that U.S. federal government agencies can quickly and efficiently procure commodities at the lowest available market price and in a fully auditable, automated and regulatory compliant manner. Today, as a leading online marketplace for the federal government, FedBid actively promotes the use of online reverse auctions throughout the federal government. Buyers from more than 60 U.S. Federal contracting offices within eighteen (18) federal agencies, including some 78 buyers at 60 embassies worldwide, currently use FedBid's innovative and effective procurement tools. FedBid is approved on the GSA IT Schedule (GS-35F-0752R, SIN 132.52), has service level contracts within 10 Federal Agencies, including the Departments of Homeland Security (DHS), State, Treasury, Commerce, Transportation, GSA and others, and is listed on the DoD eMall as a related store for use by eMall customers.

Having provided online procurement services to the federal government since 2001, FedBid possesses a unique and detailed understanding of public sector procurement requirements. FedBid's Client Services Team, which employs procurement professionals in both onsite and

offsite roles for training, acquisition assistance, and technical support, has provided a number of federal agencies with dedicated support personnel, many of whom have been issued security clearances. These individuals have worked, and continue to work, closely with customer agencies to provide ongoing buyer and seller support in order to ensure successful implementation and ongoing utilization of FedBid's dynamic online marketplace.

FedBid has also worked closely with its government customers to design, develop, and implement agency-recommended site enhancements to FedBid's online marketplace. Through this partnership, and at no additional cost to its customers, FedBid has made numerous system-wide improvements, including the automation of data feeds with FedBizOpps, enhanced buyer and seller workflow processes, the seller ActivityCardSM (performance) feature, the About Seller information feature, and the integration of transactional data into purchase card reporting systems.

This customer-focused delivery approach, in combination with FedBid's patent pending business process and state-of-the-art technology has enabled FedBid to provide to federal agency customers with a highly effective means of performing commercial item procurements that directly meets the needs of the agency. In the process, FedBid brings to each of these buyers a unique and extremely effective procurement solution that helps buyers meet overall regulatory compliance goals and achieve a number of significant related operational benefits, including improved competition, procedural transparency and efficiency, ease-of-use, access to information, cost savings, and socio-economic utilization.

Ensuring Fair and Open Competition.

FedBid's unique design encourages fair and open competition among sellers by centralizing opportunity information, providing fully automated re-bid capability, and removing

many of the risks associated with reverse auctions. As a central location for commercial item procurements across the public sector, FedBid provides opportunity notifications to thousands of sellers and direct access to over 400,000 sellers in the government's seller database (Central Contractor Registration or CCR), thereby greatly increasing the field of potential bidders. FedBid also allows sellers to utilize a patent-pending auto-rebid feature that automatically bids against the lead bid until the bidding seller is in the lead position or until the seller's minimum bid amount is reached. Most importantly, FedBid employs a bid process that effectively protects not only the seller's identity, but also the seller's pricing from its competitors. This feature greatly reduces the potential for collusion, price-fixing or fraud by sellers and prevents competitors from gleaning proprietary information on bid and pricing strategies. By allowing qualified sellers of commercial items to compete against each other on the Internet in real time and in an open and interactive environment that safeguards each seller's identity and pricing, FedBid enables customers to achieve fair and open competition. In one example of this effect, FEMA recently used FedBid to compete the purchase of communications equipment, resulting in 70 different sellers submitting an average of nearly ten bids each. Across the FedBid customer spectrum, FedBid delivers for each and every reverse auction competed through FedBid an average of more than 5 sellers submitting multiple bids.

Providing Process Transparency and Reporting

Under increasing scrutiny by Congress, the Government Accountability Office, and taxpayer advocacy groups, buyers in federal agencies face mounting pressure to maximize performance, efficiency, and cost-savings through technology while eliminating fraud, waste and abuse. Use of FedBid has resulted, and will continue to result, in improved resource, budget, oversight, and compliance capabilities for our federal government customers. By providing an

easy-to-use procurement system that produces a digital, easily accessible, and auditable record of all transaction related information, FedBid's marketplace services allow for both procedural transparency and comprehensive, customizable reporting capability. Using this information, not only can agency buyers track individual buys, but also procurement managers can obtain comprehensive level 3 data, which they can use to manage and control future spend more effectively. Continuing the communications equipment acquisition example from above, although it took only a few minutes for the agency's buyer to post the requirements on FedBid, FedBid's reverse auction results provided an automated competition and data trail that recorded, for this single reverse auction, the seller name, time, date, amount, and other detail for 70 bids and 14 acknowledgments from sellers who reviewed the specification but actively declined to bid ('no-bids'). FedBid tracks and records the same data across each customer organization, and all of this information can be categorized and reported according to the needs of individual buyers, managers or agencies.

Providing Process Efficiency

By automating the procurement process through an accessible, user-friendly e-procurement tool, FedBid significantly reduces the amount of time required to complete a procurement transaction. Even as government budgets continue to grow, the number of procurement personnel continues to shrink. As a result, agency buyers must satisfy increasing government purchase needs with fewer human resources. Although federal procurement policies encourage buyers to implement electronic commerce for agency procurement, buyers need a procurement tool that they will want to use and that they can use immediately, without regard to their geographic location, and without implementation or training worries. FedBid provides a web-based, user-friendly, thin application that can be used as a fast, effective, and efficient

means of completing commercial item buys anywhere with Internet access. By automating and streamlining the procurement process, FedBid enables agency procurement personnel to apply their expertise to more time-consuming and complex mission critical purchases.

Maximizing Cost Savings

FedBid provides significant cost savings to its customers not only by increasing competition and introducing process efficiencies, but also by operating on a transactional fee model based entirely on achieving buyer satisfaction with each reverse auction. Because FedBid has already invested the necessary resources in developing its technology and business model, agency and commercial users incur no up-front or operational costs, and there is no software or hardware investment made by buyers or sellers. The only requirement is that users must have Internet and browser access, which allows them to utilize FedBid services on a global basis, even in remote locations. FedBid ensures ongoing cost-savings and a risk-free procurement process by requiring payment only after the buyer accepts the auction results and completes the transaction. This is significant because the buyer need not accept the auction results unless those results meet the buyer's specific price, savings, and competition requirements. Accordingly, FedBid effectively guarantees its results. In the prior example, above, involving FEMA's purchase of communications equipment, FedBid's online competition delivered a net savings of \$5,658 or approximately 10% from the independent government estimate. Overall, federal agency customers have used FedBid to compete and award over \$400 million worth of purchases, which has resulted in NET savings of approximately 11% below the government estimate – and that's *after* deducting FedBid's transactional fee.

Increasing Socio-economic Utilization

FedBid increases its customers' ability to meet federal socio-economic utilization goals

in several ways. First, FedBid provides technology that enables buyers to direct competition for a particular procurement only to those firms that meet the socio-economic classifications chosen by the agency. Second, FedBid's model creates a procurement dynamic that levels the playing field, which is especially important to small businesses. FedBid both eliminates the need to bundle purchases unnecessarily and provides a centralized means for buyers to disseminate notices regarding business opportunities. This allows small businesses to compete for more opportunities, resulting in increased small business utilization. Businesses that cannot afford additional personnel to target, track, and sell company products and services are no longer at an informational disadvantage. Finally, by focusing on commercial items and simplified-type acquisitions rather than complex service procurements or 'event-type' transactions, FedBid has chosen the market most suitable for online competitions. These requirements are typically smaller and more easily described, bid pricing is more easily determined, and award is usually made primarily on a price-driven basis. The result is a market that encourages participation by large numbers of sellers, most of which are flexible, eager, and which also happen to be small businesses. This procurement dynamic directly benefits federal buyers by enabling agencies to more readily meet their socio-economic business utilization goals, even if they choose not to use FedBid's set-aside competition capability. Government-wide, small businesses received nearly 70% of all dollars awarded through FedBid, and of that amount, nearly 80% were competed on a non-set-aside basis.

3. COMPANY'S VIEWS REGARDING CONTRACTING VEHICLES, METHODS, AND POLICIES

Each year, the federal government awards over \$200 billion in contracts, including some \$50 billion in acquisitions involving price-driven commercial items. Yet, as Members of this

Committee are keenly aware, federal agencies continue to procure commodities through inefficient, time-consuming and expensive methods, ignoring effective online procurement alternatives such as FedBid, which offer readily available, inexpensive, and extremely efficient tools for meeting procurement goals.

During times of relative calm, such procurement inefficiencies can be ignored as bureaucratic inertia; however, during times of crisis and recovery, such as those surrounding the Hurricane Katrina disaster, procurement inefficiencies can mean the difference between lives saved and lives lost; property recovered and rebuilt or property lost; local economies damaged or local economies destroyed; public heroism or political disgrace. Unfortunately, the competing pressures inherent in times of crisis and recovery often combine into the perfect storm, turning inefficiency into perceived or actual incompetence or negligence. In turn, the fallout from such a storm inevitably cuts across political, economic and social boundaries, wreaking havoc on those even tangentially responsible for, or dependent on, procurement issues.

For commodity procurements, FedBid can provide the government with an extremely effective first line of defense against the waste and fraud cited in the recent report, "Hurricane Katrina: A Nation Still Unprepared", published by the Senate Committee on Homeland Security and Governmental Affairs. Significantly, the report found that "[d]ue to a lack of planning and preparation, much of FEMA's initial spending was reactionary and rushed, resulting in costly purchase decisions and utilization of no-bid, sole source contracts that put the government at increased risk of not getting the best price for goods and services." FedBid actually allows the government to conduct competitive procurements, even if such procurements need to be done quickly, and as a result, FedBid brings market forces to bear in circumstances that otherwise would be ripe for price-gouging, or at least, profiteering. In fact, FedBid has conducted

hundreds of competed procurements lasting less than 3 hours. For example, in one competition for IT equipment lasting just 2½ hours, 1,048 sellers were notified, 7 sellers bid a total of 37 times (an average of more than 5 times per seller), resulting in government savings of over \$16,000, or approximately 22.5%, as compared to the Independent Government Estimate. The ultimate awardee was a small, woman-owned firm that competed in a non-set-aside competition, and won anyway. By using FedBid, the buyer was able to achieve substantial process efficiencies and transparency, significant cost savings, fair and open competition, complete and automated documentation, and increased socio-economic utilization – in this case, all during the course of less than 3 hours. There is no reason to believe that FEMA or any other agency that chooses to use FedBid for procurements in which time is of the essence could not achieve similar results for its commodity procurements.

Significantly, FedBid also addresses the challenge of bridging the contracting gaps between federal and state and local contracting authorities. Although FedBid's unique process complies with Federal Acquisition Regulation (FAR) requirements, FedBid's functionality can be used with minimal training by any purchasing authority and without the need for additional contract mechanisms. Buyers can immediately access the thousands of registered and active FedBid sellers and have direct access through FedBid electronic feeds to the over 400,000 federal government contractors in the CCR. In addition, agencies can add suggested sources to FedBid's database quickly (registration takes 5-10 minutes) at any buyer's request. This allows state or local authorities to request FedBid to register approved local sellers and then use the set-aside capability to direct a procurement to those local sellers in order to direct recovery dollars to those areas most in need. In fact, even without such requests, there are over 1,100 sellers from Gulf Coast states registered on FedBid that can compete today for commodity buys. Federal

authorities, under the authority of the Stafford Act or Local Community Recovery Act can use FedBid in the same manner, or it can use FedBid to place directed buys through agency multiple award contracts and blanket purchasing agreements, or other methods of procurement authorized under the FAR. FedBid can also be used in conjunction with other procurement vehicles as a second tier process to gain additional discounts from existing contractual relationships, as FedBid has recently demonstrated with DoD contracts in Iraq.

Based on our extensive experience with federal procurements, FedBid recommends use of commercially available online procurement tools, like FedBid, to the maximum extent practicable. Although online procurement tools encompass a wide range of possibilities, from catalogues to RFP systems, real-time competition tools like FedBid are uniquely suited for commercial items that are best described as price-driven commodities. So long as the item specifications can be developed with enough certainty to permit objective award criteria, reverse auctions provide the most effective means of procuring such items. In the process, these tools help buyers meet overall regulatory compliance goals and achieve a number of significant related operational benefits, including improved competition, procedural transparency and efficiency, ease-of-use, access to information, cost savings, and socio-economic utilization – regardless of the requirement’s urgency. Moreover, procurement tools like FedBid can provide an attractive dynamic alternative to the traditional static or limited sourcing approach typically employed in government strategic sourcing plans. Accordingly, even if FedBid is not always the federal buyer’s tool of choice for online procurement, we encourage the federal government to use online competitive tools like FedBid to the maximum extent practicable to procure commodity-type commercial items.

Recent Developments at FEMA

Although FEMA did not utilize FedBid in the immediate aftermath of Hurricane Katrina, the agency recently completed a limited pilot program with FedBid to determine how the agency could best realize the many benefits previously described. FedBid has only been in use by FEMA at one office for two months, yet significant improvements in pricing discounts, data availability, reporting capability, and other benefits have already been achieved, as illustrated in some of the previous examples cited. To date, FEMA has accepted results from 11 reverse auctions for items totaling approximately \$400,000. Each auction averaged nearly 13 bidders, bidding a total of 46 times, and almost 31 sellers actively submitting no-bid notifications. Total savings approached \$75,000, or nearly 19% below the Independent Government Estimate.

We applaud FEMA's action to look for ways to improve their procurement processes that led them to use FedBid starting in March 2006. FEMA is currently working to expand the use of FedBid to other procurement offices, and we anticipate that the success that has been achieved to date will replicate itself throughout the agency.

FedBid is proud to be serving as a new partner in the process of putting the victims of last year's disastrous hurricane season back on their feet as quickly as possible, and we appreciate the efforts of those at FEMA and throughout the federal government who did their best to assist those affected by those disasters. We also appreciate the Committee's considerable efforts in trying to improve the acquisition process so that the federal government can react with more speed, precision, efficiency and effectiveness during the next crisis, and we trust FedBid will have a positive impact on those efforts.

I would be pleased to entertain any questions from the Committee.